Mortgage Agency Services Number Five Limited

Directors' report and financial statements

for the year ended 31 December 2005

Registered Number 4420522

Directors' report and financial statements for the year ended 31 December 2005

Contents

Mortgage Agency Services Number Five Limited

Directors and advisors

Directors
R S Green
G A Gregory
P A Lee
S Williams
PCSL Services No.1 Ltd
J Katovsky
M Lewis
D Tweedy

Secretary
R S Green

Auditors
PricewaterhouseCoopers LLP
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

Registered Office
Britannia House
Cheadle Road
Leek
Staffordshire
ST13 5RG

Registered Number
4420522

Mortgage Agency Services Number Five Limited

Directors' report for the year ended 31 December 2005

The directors present their report and the audited financial statements of the company for the year ended 31 December 2005.

Principal activities
The company was incorporated in the UK with the principal activity of investment in mortgage loans secured by first charges over residential properties within the United Kingdom.

Review of business and future developments
The directors are satisfied with the results, although the year ahead will be influenced by market conditions.

As set out more fully in the Statement of accounting policies, these financial statements have been prepared under the current International Financial Reporting Standards ("IFRS") framework. Accordingly, the comparative financial information is different from that previously reported, having been restated from United Kingdom Generally Accepted Accounting Principles ("UKGAAP") to IFRS. All financial information given in this Directors' report is taken solely from the statutory results prepared on the above basis.

Results and dividends
The loss for the year after tax amounted to £11,076 (2004: Profit £907,875). The directors do not propose a dividend for the year (2004: £nil).

Directors and their interests
The directors who held office during the year are given below:

R S Green
G A Gregory
P A Lee
S Williams
PCSL Services No.1 Ltd
M Lewis (appointed 21 October 2005)
D Tweedy (appointed 20 December 2005)
P Mills (resigned 22 December 2005)

Post year end, J Katovsky was appointed as director effective from 1 February 2006.

No director had a beneficial interest in the share capital of the company or any other company in the Britannia Building Society group at any time during the year under review.

Statement of directors' responsibilities
Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2005 and that applicable International Financial Reporting Standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Mortgage Agency Services Number Five Limited

Auditors
The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the annual general meeting.

Financial risk management
The directors have considered the financial risk affecting the company and have disclosed the relevant policies in the Notes to the financial statements.

By order of the Board

P A Lee
Director
4 May 2006

Mortgage Agency Services Number Five Limited

Independent auditors' report to the members of Mortgage Agency Services Number Five Limited

We have audited the financial statements of Mortgage Agency Services Number Five Limited for the year ended 31 December 2005, which comprise the Income statement, the Balance sheet, the Statement of recognised income and expense, the Cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss and cash flows for the period then ended; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
4 May 2006

Mortgage Agency Services Number Five Limited

Income statement for the year ended 31 December 2005

	Notes	**2005 £000**	2004 £000
Interest receivable and similar income	2	**1,628**	3,081
Interest expense and similar charges	3	**(1,615)**	(1,922)
Net interest income		**13**	1,159
Fee and commission income	4	**111**	143
Net fee and commission income		**111**	143
Amortisation of premium	10	**-**	(1,000)
Impairment losses on loans and advances	9	**7**	348
Other operating expenses		**(175)**	(162)
(Loss)/profit before tax		**(44)**	488
Taxation	6	**33**	420
(Loss)/profit for the year after tax		**(11)**	908

The accounting policies and notes on pages 8 to 19 form part of these financial statements.

Mortgage Agency Services Number Five Limited

Balance sheet as at 31 December 2005

	Notes	**2005 £000**	2004 £000
Assets			
Bank deposits	7	**122**	52
Loans and advances to customers	9	**29,112**	35,061
Premium on acquisition	10	**-**	1,252
Deferred tax asset	6	**-**	264
Other assets	11	**62**	29
Total assets		**29,296**	36,658
Liabilities			
Other liabilities	12	**28,462**	36,802
Deferred tax liabilities	6	**112**	-
Total liabilities		**28,574**	36,802
Equity			
Called up share capital	13	**500**	500
Retained earnings	14	**222**	(644)
Total equity and liabilities		**29,296**	36,658

The accounting policies and notes on pages 8 to 19 form part of these financial statements.

Approved by the board of directors on 4 May 2006 and signed on its behalf by:

PA Lee
Director

Mortgage Agency Services Number Five Limited

Statement of recognised income and expenditure for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Net (loss) / profit for the year	14	(11)	908
Effect of changes in accounting policies			
Changes in accounting policies on adoption of IAS 39	20	1,253	-
Tax on items through equity		(376)	
Total recognised income and expenditure for the year		866	908

Cash flow statement for the year ended 31 December 2005

	Notes	2005 £000	2004 £000
Cash flows from operating activities	15	70	22
Tax paid		-	(17)
Cash flows from financing activities		-	-
Net increase in cash and cash equivalents		70	5
Cash and cash equivalents at start of period		52	47
Cash and cash equivalents at end of period	8	122	52

Mortgage Agency Services Number Five Limited

Statement of accounting policies for the year ended 31 December 2005

Basis of preparation

Prior to 2005, the company prepared its audited financial statements under UK Generally Accepted Accounting Principles (UK GAAP) and in accordance with Companies Act 1985. From 1 January 2005, the company has chosen to prepare its annual financial statements in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. The date of transition to IFRS for the company was 1 January 2004 and the company prepared its opening IFRS balance sheet as at that date.

The comparative figures in respect of 2004 have been prepared in compliance with IFRS. Reconciliations and explanations of the effect of adopting IFRS compliant accounting policies on the company's equity (net assets) and profits are provided in note 20.

As a result of the company's decision to adopt the IFRS1 exemption and not restate comparatives for International Accounting Standard No. 32 'Financial instruments: Disclosure and presentation' (IAS32) and International Accounting Standard No. 39 'Financial instruments: Recognition and measurement' (IAS 39), certain accounting policies will only apply from 1 January 2005 and not to the 2004 comparatives. These policies have been denoted with an asterisk. The 2004 comparative accounting policies are reproduced are page 9.

The company accounts have been prepared on a historical cost basis.

Income and interest expense *

Interest income and expense are recognised in the income statement using the effective interest rate method.

Effective interest rate

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the company estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all amounts receivable or payable by the company that are an integral part of the overall return.

When a financial asset has been written down as a result of impairment or loss, subsequent interest income continues to be recognised using the original effective interest rate applied to the reduced carrying value of the financial instrument.

Fee and commission income

Fee and commission income other than that directly related to loans is recognised over the period for which service has been provided or on completion of an act to which the fee relates.

Statement of accounting policies
for the year ended 31 December 2005 (continued)

Deferred tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax payable on profits is recognised as an expense in the period in which profits arise. The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 3 months maturity from the date of acquisition.

Adoption of IAS 32 and IAS 39

The company decided to adopt the IFRS 1 exemption and not restate comparatives for IAS 32 (Financial instruments: Disclosure and presentation) and IAS 39 (Financial instruments: Recognition and measurement).

As a result certain accounting policies, stated above, only applied from 1 January 2005 and not to the 2004 comparatives. The accounting policies used in the preparation of the 2004 comparatives, which comply with the relevant UK accounting standards are set out below:

Interest receivable and payable

Interest is recognised in the income and expenditure account on an accruals basis.

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Notes to the financial statements for the year ended 31 December 2005

1 (Loss)/profit before tax

(Loss)/ profit before tax is stated after charging:

	2005 £000	2004 £000
Auditors' remuneration	5	-

2 Interest receivable and similar income

	2005 £000	2004 £000
Loans and advances	1,628	3,081
	1,628	3,081

3 Interest expense and similar charges

	2005 £000	2004 £000
Interest and similar charges payable to group undertakings	1,615	1,922
	1,615	1,922

4 Fee and commission income

	2005 £000	2004 £000
Intercompany fees receivable	57	68
Other fees	54	75
	111	143

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Notes to the financial statements for the year ended 31 December 2005 (continued)

5 Directors' emoluments and employees

The directors received no emoluments in respect of their services during the year (2004: £nil).

Phil Lee receives emoluments for services rendered in respect of all group companies. However, these are not apportioned to individual companies.

Five directors have benefits accruing under the Britannia Building Society Pension scheme (2004: four). Particulars of the latest actuarial valuation of the group pension scheme are disclosed in the accounts of Britannia Building Society.

The company had no employees during the year or during the previous period.

6 Taxation

	2005	2004
	£000	£000
UK tax at 30% (2004: 30%)		
Corporation tax		
Current	**(13)**	(4)
Adjustments in respect of prior periods	**(20)**	(248)
Total corporation tax	**(33)**	(252)
Deferred tax		
Current	**-**	150
Adjustments in respect of prior periods	**-**	(318)
	(33)	(420)

Factors affecting tax charge for the year

The average effective rate of corporation tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2005	2004
	£000	£000
(Loss) / profit before tax	**(44)**	488
Profit before tax multiplied by standard rate of tax	**(13)**	146
Effects of:		
Adjustments in respect of prior periods	**(20)**	(566)
	(33)	(420)

Notes to the financial statements for the year ended 31 December 2005 (continued)

6 Taxation (continued)

The recognised deferred tax (liability) / asset includes the following amounts:

	2005	2004
	£000	£000
Short term timing differences	**(112)**	264

As at 31 December 2005, there are no tax-related contingent assets or contingent liabilities in accordance with International Accounting Standard No. 37: 'Provisions, Contingent Liabilities and Contingent Assets' (IAS37).

The reconciliation of opening and closing deferred tax asset is shown below:

	2005	2004
	£000	£000
Deferred tax asset at start of period	**264**	96
Deferred tax effect of adoption of IAS39	**(376)**	
Deferred tax provided during the year	**-**	168
Deferred tax (liability)/asset at end of period	**(112)**	264

7 Bank deposits

	2005	2004
	£000	£000
Bank deposits (included in cash and cash equivalents: note 8)	**122**	52
	122	52

8 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than 3 months maturity from the date of acquisition:

	£000	£000
Bank deposits (note 7)	**122**	52
	122	52

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Notes to the financial statements for the year ended 31 December 2005 (continued)

9 Loans and advances to customers

	2005 £000	2004 £000
Loans to individuals:		
Mortgages	**29,112**	36,321
Less: allowance for losses on loans and advances (below)	-	(1,260)
	29,112	35,061
Allowance for losses on loans and advances:		
Opening balance	**(1,260)**	(1,613)
Adoption of IAS 39	**1,253**	-
Balance at 1 January	(7)	**(1,613)**
Provision for loan impairment	7	348
Loans written off during the year as uncollectable	-	5
Balance at 31 December	-	(1,260)

During the year the company recovered £nil (2004: £nil) against amounts previously written off.

10 Premium on acquisition

	2005 £000	2004 £000
Opening balance	**1,252**	2,252
Adoption of IAS 39	**(1,252)**	-
At 1 January	-	2,252
Amortised during the year	-	(1,000)
At 31 December	-	1,252

11 Other Assets

	2005 £000	2004 £000
Group tax relief receivable	**62**	29
	62	29

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Notes to the financial statements for the year ended 31 December 2005 (continued)

12 Other liabilities

	2005 £000	2004 £000
Amounts owed to Group undertakings	**28,407**	36,731
Other creditors	**55**	71
	28,462	36,802

The above amounts owed to Group undertakings are expected to be settled more than 12 months after the balance sheet date. The beneficiaries of these balances are shown in the related parties note below.

These amounts include monies due to Britannia Treasury Services Limited. There is no formal repayment schedule for these monies. The nature of the loan is such, however, that repayment cannot be anticipated within one year but will be repaid as the company's loans and advances to customers are repaid.

13 Called up share capital

	2005 £000	2004 £000
Authorised		
500,000 ordinary shares of £1 each	**500**	500
Issued and fully paid		
500,000 ordinary shares of £1 each	**500**	500

14 Retained Earnings

Movements in retained earnings were as follows:

	2005 £000	2004 £000
Opening balance	**(644)**	(1,552)
Adoption of IAS 39	**877**	-
Balance at 1 January	**233**	(1,552)
(Loss)/profit for the financial year	**(11)**	908
At 31 December	**222**	(644)

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Notes to the financial statements for the year ended 31 December 2005 (continued)

15 Cash flow statement

Reconciliation of operating profit to net cash flows from operating activities:

	2005	2004
	£000	£000
(Loss) / profit before tax	**(44)**	488
(Decrease) / increase in accruals	**(155)**	32
Amortisation	**-**	1,000
Provisions for bad and doubtful debts	**(7)**	(348)
Cash flows from operating profits before changes in operating assets and liabilities:	**(206)**	1,172
Net decrease in loans and advances to customers	**8,618**	12,346
Net decrease / (increase) in other assets	**36**	(2)
Net decrease in other liabilities	**(8,378)**	(13,494)
Net cash flows from operating activities	**70**	22

16 Ultimate parent undertaking

The company's immediate parent undertaking is Britannia Treasury Services Limited, a company registered in England.

Britannia Treasury Services Limited is wholly owned by Britannia Building Society, a body corporate registered in England. Copies of Britannia Building Society's accounts may be obtained from:

Britannia House, Cheadle Road, Leek, Staffordshire, ST13 5RG.

The Society, the ultimate controlling entity of this company, is a mutual organisation owned by its members and consequently has no ultimate controlling body.

Notes to the financial statements for the year ended 31 December 2005 (continued)

17 Related party disclosures

The company undertook the following transactions with other companies within the Group during the year:

Year ended 31 December 2005	Interest Paid £000	Fees paid £000	Balance Due to MAS5 £000
WMS	-	95	(7)
Britannia Building Society	1,615	-	(28,400)

Period ended 31 December 2004	Interest Paid £000	Fees paid £000	Balance Due to MAS5 £000
WMS	-	127	-
Britannia Building Society	1,922	-	(36,731)

18 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The company's financial instruments comprise principally of loans and advances to customers, amounts owed to group undertakings and cash and cash equivalents.

As a subsidiary of Britannia Building Society, the company applies the Society's formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Assets and Liabilities Committee ('ALCO'), which is charged with the responsibility for managing and controlling the balance sheet exposures of the Society. The minutes of ALCO are presented to the Board of the Society.

Interest rate swaps

The company has no derivative financial instruments as at 31 December 2005 and has no significant interest rate re-pricing exposure.

18 Financial instruments (continued)

Fair values of financial instruments

Set out in the table below is a comparison of book and fair values of some of the company's financial instruments by category. Where available, market values have been used to determine fair values.

	Book Value 2005 £000	Fair Value 2005 £000
Loans and advances to customers	29,112	29,112
Amounts owed to Group undertakings	(28,407)	(28,407)

Credit risk

Loans and advances to customers

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to us as they become due.

Credit risk is the risk that a customer or counterparty will not be able to meet its obligations to us as they become due.

Credit risk in respect of the company's residential mortgage assets is managed as follows:

- Original due diligence on any acquisitions is undertaken by both Britannia personnel and external experts reporting to MD BCIG.
- Credit management is conducted in accordance with the service contract & service specifications with WMS.
- Arrears, possessions, redemptions statistics are reported to BTS Mortgage Performance Committee (MPC), and subsequently to BTS Credit Committee which reports to group Credit Committee on asset performance.
- MPC maintains limits and recommends policy. BTS Credit Committee sets policy, subject to Group Credit Committee approval.

Effective interest rates

The effective interest rates of those monetary financial instruments not carried at fair value through income and expense as at 31 December 2005 were as follows:

Loans and advances to customers	7.34%
Amounts owed to group undertakings	1 month LIBOR plus 21 basis points

19 Dividends per share

Due to the loss position at year end, no dividend in respect of 2005 is to be proposed.

Notes to the financial statements for the year ended 31 December 2005 (continued)

20 Transition to International Financial Reporting Standards

A reconciliation between the UK GAAP balance sheet as at 31 December 2003 and the IFRS balance sheet as at 1 January 2004 has not been prepared as there are no differences between the balance sheets at those dates.

Income and expenditure account for the year ended 31 December 2004: Reconciliation between UK GAAP and IFRS

	Notes (below)	UK GAAP year ended 31 December 2004 £000	Effect of transition to IFRS (excl. IAS 32 and IAS 39) £000	IFRS year ended 31 December 2004 £000
Interest receivable and similar income	1	3,224	(143)	3,081
Interest expense and similar charges		(1,922)	-	(1,922)
Net interest income		1,302	(143)	1,159
Fees and commission income	1	-	143	143
Net fee and commission income		-	143	143
Amortisation of premium		(1,000)	-	(1,000)
Impairment losses on loans and advances		348	-	348
Operating expenses		(162)		(162)
Profit before tax		488	-	488
Taxation income		420	-	420
Profit for the year after tax		**908**	-	**908**

Notes to the reconciliation:

Although there is no overall impact on the 2004 income and expenditure account arising from the application of IFRS in 2004, in order to show a consistent presentation of 2004 and 2005 interest and fees and commissions, reclassifications have been made.

1. Reclassification of fee commission.

Mortgage Agency Services Number Five Limited

Notes to the financial statements for the year ended 31 December 2005 (continued)

20 Transition to International Financial Reporting Standards (continued)

Balance sheet as at 31 December 2004: reconciliation between UK GAAP and IFRS

A reconciliation between the UK GAAP balance sheet as at 31 December 2004 and the IFRS balance sheet as at 31 December 2004 has not been prepared as there are no differences between the balance sheets at those dates.

Balance sheet as at 31 December 2004 and 1 January 2005: effects of IAS 32 and IAS 39

	Notes	IFRS 31 December 2004 (excl. IAS 32 and IAS 39) £000	Other effects of IAS 32 and IAS 39 £000	IFRS 1 January 2005 £000
Assets				
Bank deposits		52	-	52
Loans and advances to customers	1	35,061	2,505	37,566
Premium on acquisition	2	1,252	(1,252)	-
Deferred tax asset	3	264	(264)	-
Other assets		29	-	29
Total assets		**36,658**	**989**	**37,647**
Liabilities				
Other liabilities		36,802	-	36,802
Deferred tax liabilities	3	-	112	112
Total liabilities		36,802	112	36,914
Equity				
Called up share capital		500	-	500
Retained earnings	4	(644)	877	233
Total equity and liabilites		**36,658**	**989**	**37,647**

Notes to the reconciliation:

1. Effect of IAS 39 on loss provisions and the reclassification of premium on acquisition.
2. Reclassification of premium on acquisition to loans and advances.
3. Tax effect of IAS 39 adjustments.
4. Comprises the net effect of above adjustments.